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DRAFT REPORT OF SESSIONAL COMMITTEE I OF THE THE TRADE AND DEVELOPMENT BOARD ON THE SECOND PART OF ITS FORTIETH SESSION

Rapporteur: Mr. E.M. Manakine (Russian Federation)

Agenda item 4: SUSTAINABLE DEVELOPMENT; THE EFFECT OF INTERNALIZATION OF EXTERNAL COSTS ON SUSTAINABLE DEVELOPMENT

Speakers:
Secretariat
United States of America
Japan
European Union (Greece)
Brazil
Ethiopia
Switzerland
Mexico
Asian Group (Indonesia)
China
Nordic Group (Norway)
Egypt
The former Yugoslav Republic of Macedonia
India
Canada
Algeria
Australia

Note for Delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments - to be submitted in English or French - should be communicated by Friday, 6 May 1994 at the latest to:

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INTRODUCTION

(i) At its 833rd (opening) meeting, on 18 April 1994, the Trade and Development Board decided to establish a sessional committee of the whole (Sessional Committee I) to consider and report on the following agenda items:

> Trade policies, structural adjustment and economic reform: increased participation in international trade in goods and services by developing countries and economies in transition: some problems and opportunities (agenda item 2);
>
> Sustainable development: the effect of internalization of external costs on sustainable development (agenda item 4).

(ii) As indicated in the agenda (TD/B/40(2)/1/Add.2), it is understood that those officers elected to serve the sessional committees at the first part of the session may be retained to serve in the same capacities at the second part of the session. Thus the Chairman of Sessional Committee I was Mr. Antti HYNNINEN (Finland) and the Rapporteur was Mr. Evgueni MANAKINE (Russian Federation).

(iii) In the course of the second part of the fortieth session, Sessional Committee I held ..... formal meetings and ..... informal meetings.

Chapter I

SUSTAINABLE DEVELOPMENT: THE EFFECT OF INTERNALIZATION OF EXTERNAL COSTS ON SUSTAINABLE DEVELOPMENT

(Agenda item 4)

1. For its consideration of this item, the Board had before it the following documentation:

> "The effect of the internalization of external costs on sustainable development", report by the UNCTAD secretariat (TD/B/40(2)/6).

Consideration in Sessional Committee I

2. In introducing this item, the **Deputy Director of the Commodities Division and Coordinator for Sustainable Development** emphasized that sustainable development was a development concept which therefore required economic growth in places where essential needs were not being met. Thus sustainable development gave priority to the urgent present needs of the poor and the elimination of poverty and not just of pollution. Environmental problems arose when prices paid for goods and services did not reflect fully the cost to the environment of their provision, use and disposal. Sustainability of development required striking a balance between resource use and protection of the environment. The regulatory approach - whereby governments set regulations and environmental standards - was practised widely but there were other instruments for internalizing external environmental costs. The secretariat paper had assessed the nature of the various instruments available and their advantages and disadvantages. Full-cost resource pricing was one of the principles underlying internalization of environmental costs with which UNCTAD was particularly well-placed to deal. While it had been recognized that action was necessary at the national level, it was the international dimension of such action that could be valuably addressed in UNCTAD, in particular transborder and global external environment costs. Developing countries, especially, faced a policy conundrum: the imperatives of environmental protection and of development often pulled in opposite directions. Resolution of this conundrum required policies that would meet at least three criteria: (a) be capable of internalizing external costs; (b) allow continued economic development in all countries and enable the process of industrialization and modernization of commodity production to proceed in countries where the process was incomplete; and (c) provide appropriate incentives to assure development in developing countries and the renewal and

expansion of industrial facilities in both developed and developing countries, while embodying environmentally sound technologies and practices.

3. Although it was in the interest of all countries to cooperate on reducing the rate of use of environmental resources, the incentives facing individual countries often encouraged cost-cutting by "free-riding" on the virtuous behaviour of other countries. Hence the need for an efficient system of incentives at the international level was an imperative. In line with Principle 7 of the Rio Declaration, special attention had to be paid to finding positive incentives directed towards developing countries. Since production of commodities imposed costs that were seldom included in their market price, commodity exporters were, in essence, providing a subsidy to importers. For this reason, commodity pricing issues and the coordination of internalization in resource-based industries were central to achieving sustainable development through trade. Incentives for environmentally sound technology switching also had great potential. However, developing countries were faced with problems of environmental resource management superimposed on existing development problems. As the advances expected following Agenda 21 had not appeared, there was concern in some quarters that the environmental agenda of the industrialized countries might push development issues to a lower order of priority. It was therefore essential to start taking immediate steps towards sustainable development through the internalization of external environmental costs. The Board might wish to request that the Standing Committee on Commodities examine the issue of the principle of full cost resource pricing incorporating external environmental costs and its implementation, with particular emphasis on ways of ensuring global cooperation on instruments supportive of sustainable development, such as for example through international commodity-related environment agreements. At the second part of its forty-first session, the Board might wish to devote attention to the issue of environmental finance as this would be a natural evolution of work on development finance and could possibly respond in some measure to the failure of the "Earth Dividend" to materialize.

4. The representative of the **United States of America** said that she found the overall tone of secretariat's report to be positive, including its conclusions on the developmental benefits of environmental protection measures, particularly from the viewpoint of reducing or removing ill-conceived subsidies and other forms of free market interventions. The focus on the application of instruments for appropriate internalization of external environmental costs of economic activities held promise both for reducing the environmental damage they caused and for building the international basis for the effective integration of environmental

concerns into trade and development policies. She reminded the Board, however, that cost internalization alone could not create all the conditions necessary for sustainable development. Moreover, specific economic and environmental policies that might be appropriate for internalization of external costs, and their potential contribution towards sustainable development, also depended on the specific definition given to such concepts as internalization of external costs and sustainable development. The secretariat's report framed the principle of internalization of external costs in terms of the polluter pays principle and the resource pricing principle, but additional elements needed to be considered, including the notion of optimality and the possible alternatives for the use of available economic, social and environmental resources. In her view, the report overemphasised the equity dimension of cost internalization while understating the importance of the efficiency dimension, and had not adequately addressed such important questions as the formulation of appropriate commodity policies and the role of sound ecosystems management. Moreover, the critical importance of inter-generational equity, which was generally regarded as one of the key tenets of the sustainable development concept, had been neglected in favour of intra-generational equity. Future consideration by UNCTAD in this area should be more focused and move beyond the Brundtland Commission definition of sustainable development into a fuller common understanding of the environmental and developmental concepts. She commended the secretariat for its work in providing a solid and objective analytical foundation for discussion and indicated support for further work on commodity-related issues and national approaches to environmental financing.

5. The representative of **Japan** said that in his country regulatory approaches had achieved considerable success in controlling industrial pollution and, consequently, in safeguarding the environment. However, as a result of continuing economic growth and its accompanying pattern of mass-production, mass-consumption and mass-disposal, urban and household-generated pollution had emerged as a major problem. Since these new and complex problems arose from everyday activities, it could be said that people were both polluters and victims at the same time. He was of the opinion that, to be effective, regulatory approaches should be supplemented by a broad variety of policy instruments, including economic measures such as environmental taxes, surcharges and deposit-refund systems. He said that Japan's 1993 Basic Environment Law provided for the use of economic measures to reduce the environmental load; there was also government monitoring of the effectiveness of these measures and their impact on the economy and the promotion of public awareness and understanding on the rationale for such measures. He clarified the

use of the "Environmental Fund" component of the "Pollution Related Health Damage Compensation Law", mentioned in paragraph 50 of the secretariat's report. This law had been enacted in 1974 to exact compensation from polluting industries on behalf of pollution victims and, contrary to what was stated in the report, no loans had been granted to firms investing in pollution-control technology under this law. Since 1988, the "Fund" component of this law had been financed by voluntary contributions which were used to support pollution-related health care and welfare programmes. As to the future work of UNCTAD, he reminded the Board of the agreement at the most recent session of the Standing Committee on Commodities regarding the importance of an analysis of the economic implications of internalization. He expected the Committee to deliberate on this issue carefully, particularly the linkage between internalization and the issue of trade and environment and the varying economic and environmental circumstances affecting different commodities. He also said that he preferred to postpone a decision on the theme to be addressed at the second part of the Board's forty-first session. This decision could be taken during the first part of that session, by which time the mid-term review would have been completed.

6. On behalf of the **European Union**, the representative of Greece said that the document prepared by the secretariat was an excellent analysis of the concept of internalization of environmental costs, the degree of consensus on the principles involved and the instruments available. Internalization of external environmental costs had been proclaimed in principle 16 of the Rio Declaration and identified in paragraph 208 of the Cartagena Commitment which recognized that UNCTAD should pursue work on: "the manner in which prices of natural commodities and their synthetic competitors could reflect environmental costs and resource values". Externality entailed effects of one entity's action on others not party to that action. These effects could be negative or positive, resulting in either costs or benefits and their evaluation was exceedingly difficult. Agenda item 4 incidentially referred only to internalization of the costs but not the benefits. Identifying the instruments by which to carry out the task of internalization, the implications of their use at the international level and the necessity for concerted action were all part of a complex issue. Sustainable development relied on economic growth to meet basic needs and, as the secretariat report had stated, sustainable development should give "priority to the urgent needs of the poor, seeking to do away with poverty, not just pollution" (para. 8). While internalization of external environmental costs could contribute to the conservation and better management of the environment, it was nevertheless clear that some external environmental costs would not impinge greatly on sustainable

development. The process of internalizing environmental costs involved their identification, evaluation and redistribution. An evaluation had to be made of the extent to which external environmental costs would reduce the bases for future needs satisfaction; likewise the extent to which the financial costs of internalization impinged on other investment possibilities had to be assesssed. A focus on the purpose of internalizing external costs, namely to induce the agent responsible for causing the cost to reduce or eliminate it, should not obscure the fact that many external costs were unavoidable. For natural resources, avoiding all costs for future generations implied ceasing exploitation altogether, an unreasonable solution. However, external costs accruing to future generations could be reduced to a level compatible with sustainable development. Full-cost resource pricing was one way to achieve this and should be investigated. Establishment of the Global Environment Facility reflected a global agreement that actions of a single country could benefit others. Technical assistance to developing countries should help in spreading the skills needed to implement environmentally sound technologies. Experience with economic instruments was still needed along with complementary regulations. UNCTAD was well placed to explore the relationship between trade and environment and discussions on such issues should be pursued. The European Union supported the proposal (para. 77 of TD/B/40(2)/6) to request that the Standing Committee on Commodities examine in depth the internalization of external environmental costs in both commodity-producing and commodity-consuming countries. It was appropriate for UNCTAD to take up this subject from a market-based orientation in the context of trade and environment. In the light of the results of Marrakesh, the time was ripe to explore the establishment of an ad hoc working group on "trade and sustainable development". In line with the Cartagena Commitment, such an a group could, before UNCTAD IX, discuss concrete issues and proposals. While it might be premature to consider highly technical concepts such as an environmental value added tax and tradeable emission permits, UNCTAD was the appropriate forum to evaluate in due course the results of the work of the aforementioned ad hoc working group.

7. The representative of **Brazil** said that the concept of "internalization of external costs" had moved beyond the circles of economists into the public debate on sustainable development. The more popular slogan, "getting the prices right," masked the complexity of the problem. Environmental problems varied in terms of specific ecological circumstances, social and economic factors, the varying degree of priority given and the subsequent financial investment it required. Formulating the appropriate policy mix required consideration of a number of factors. Additional experience and analysis on the requirements and consequences of the use

of both regulatory and economic instruments were therefore needed. This was especially true in the case of developing countries, where institutional and administrative structures and resources were often not readily available. Regarding the option of correcting government policies having adverse environmental impacts, particularly the issue of subsidies, he said that little justification existed for subsidies which distorted international markets, depressed prices and caused countries in need of hard currency to over-exploit their natural resources. However, individual Governments could not do much with regard to international commodity prices which did not cover environmental conservation costs. He supported the idea of multilateral commodity-related environmental agreements, with the proviso that commodity producers adopting environmental action be protected from reduced remuneration arising from such action. He did not agree with the description of low commodity prices, in relation to environmental costs, as one which included subsidization either on the part of the foreign importer or the domestic producer, on the grounds that such a concept was based on imputed costs which in turn were determined by country-specific standards of environmental protection which could not be generalized. Furthermore, it was necessary to evaluate the consequences of the use of economic instruments, including their impact on international trade and on the sustainable development programmes of partner countries. While economic instruments were generally considered to be less intrusive than regulatory measures, the choice of product to be taxed, for instance, could cause distortions with ultimately negative effects on the environment. As an example, exemption of recycled paper from taxes on paper might discourage reforestation for pulp production. As regarded international cooperation, he remained to be convinced of the merits of international tradeable carbon emission entitlements, given that experience in this field had so far been less than encouraging. Conversely, international resource transfers could play an important role. The Board could, he believed, examine the issue of environmental financing with regard to internalization of external costs as well as the maintenance of external environmental benefits. He concluded by expressing support for the formation of a working group on trade and environment, provided that an agenda could be found which would emphasize developmental concerns and ensure complementarity with the working programme of the future World Trade Organization.

8. The representative of **Ethiopia** reported that the Transitional Government of Ethiopia had taken action to safeguard an environmentally sound development process. The Science and Technology Commission promoted the use of environmentally sound technology; structural adjustment programmes included subsidy reduction. Allocation of government expenditure had been shifted from the defense sectors to

economic infrastructure. She believed that for developing countries to undertake internalization of external costs effectively and successfully, the support of the UNCTAD secretariat and of the developed countries would be indispensable. Regarding the elimination of subsidies, she pointed out that farmers in developed and in developing countries did not have the same level of capacity to absorb the cost of necessary inputs. The agricultural sector of developing countries would not be able to meet export requirements unless assistance was forthcoming to cover the cost of fertilizers and pesticides. While the elimination of agricultural subsidies increased government revenues which could ultimately benefit the poor and thus contribute to the internalization of external costs, the cost of such a policy measure was unaffordable in the immediate term. Expressing regret that scant reference had been made as to how the least developed countries could meet the challenges of internalization of external costs, she affirmed her Government's commitment to the implementation of the Rio Declaration, and its view that differentiated responsibility, along with international cooperative and special assistance to countries in need were effective ways of achieving the desired goal.

9. The representative of **Switzerland** said that various economic market-based instruments designed to internalize external costs were in operation in his country and new policy proposals were under way. Regarding internalization policies, as discussed in the secretariat's report, he enumerated certain implementation obstacles. Foremost among these was that even if the principle of internalization of external costs was universally accepted, its application would inevitably meet with political resistance because of vested economic interests. The actual issue at stake was not environmental nor even economic as such, but rather political in dimension. Furthermore, most developing countries were currently undertaking structural adjustment programmes, which also aimed at correct pricing policies through the establishment of property rights and of free market fundamentals. He deduced that these countries would want to evaluate the results of these programmes first before embarking on internalization policies. He pointed out that the lack of administrative and fiscal resources of developing countries to redirect incentives and financial flows implied in internalization of external costs could be a hurdle. Experience with debt-conversion policy showed that debt-for-nature swaps created conflicting national policy priorities and had worsened inflationary pressures. The relationship between commodity exports and environmental degradation was not as linear as suggested in the paper: export products such as coffee and tea had much less environmental impact than products for domestic consumption like cassava and rice. He suggested that emphasis be placed on production activities rather than on the end-product itself. As far the proposed

international commodity-related environmental agreements, he noted that the lack of international coordination and implementation had limited the success of earlier agreements. He doubted that full cooperation could be achieved if the price premium were to be utilized for the purpose of sustainable development. Moreover, disbursing compensation to exporting countries was tantamount to providing incentives for a product or a production process which should be discouraged in the first place while neglecting diversification promotion. Resources should go to addressing the environmental issue with such options as diversification and transfer of technology. Switzerland would welcome the creation of an intergovernmental group of experts on diversification. UNCTAD's work in this area, both in terms of theory and practical experience, could be a valuable input into the work of the future World Trade Organization.

10. The representative of **Mexico** considered that it was essential to analyse the potential trade distortions and secondary effects arising from the use of proposed measures for internalizing external costs, particularly as these could result in higher prices of developing countries' export products which in turn could undermine their trade competitivity. Sustainable development could best be achieved in a climate of dynamic international economic growth based on a predictable, equitable and non-discriminatory multilateral trade system; environmental issues must not be used as an excuse for trade protectionism. Further work was needed on areas such as determining the optimum level of environmental protection and setting specific objectives in pollution reduction. The capacity of developing countries to internalize environmental costs depended on their general level of development and on the support offered through international organizations such as UNCTAD. If developing countries had to reconcile the need for rapid export-led growth with the need to conserve their natural resources, it was imperative that improved market access be allowed for their non-traditional exports. It was equally important that developing countries have access to adequate financial and technological assistance regarding environment conservation techniques and applications. The transfer of obsolete technology that was environmentally harmful must be avoided. Regarding economic measures, these were important for attaining environmental goals, in persuading other countries to follow a similar strategy, in protecting national industry and in fulfilling international commitments on the environment. Their implementation, however, must take into account the fact that the causes as well as the consequences of environmental problems differed between the developing and developed countries. Among the former, lack of resources was paramount, while among the latter the chief cause was consumerism. Integrating environmental

protection into a country's economy required a system-wide review of economic policies, natural resources management, technological innovation, participation of the public at large, research priorities and investment practices. Each individual country thus had to define modes of internalization of external costs according to their circumstances and priorities. Recent trade negotiations with the United States and Canada had enabled Mexico to finalize a plan of action for attaining sustainable development, including environmental costs absorption. The Board's decision to examine the trade and environment issue during the first part of each of its annual sessions had full support from Mexico and, in this connection, at the first part of the forty-first session, the Board could examine the effects of the proposed measures on market access and competitivity, particularly for developing countries' exports. His country likewise supported the suggestion that the Standing Committee on Commodities examine further the internalization of external environmental costs for commodities.

11. Speaking on behalf of the **Asian Group**, the representative of Indonesia stated that international cooperation was indispensable not only in terms of adopting a concerted global strategy on the environment, but also in terms of assisting developing countries in implementing programmes aimed at achieving sustainable development and alleviating poverty. For most developing countries, internalization was still a policy option and given the lack of financial and technological resources, many such countries might opt for policies on which the only consideration was that of trade and the economy. The capability of developing countries to internalize external environmental costs could only be realized with stable economic growth which allowed for the pursuit of sound environmental management. In this regard, international support was needed to ensure that environmental policies were coherent with national developmental goals and priorities. Assistance in terms of capital equipment and appropriate skills, for instance, could be provided. Further study was needed to analyse the impact of internalization on trade and on the competitiveness of internationally traded products, particularly those of environmentally friendly products. Additionally, efforts should be aimed at preventing conflicts arising from differences in environmental policies among countries, taking into consideration their specific needs and levels of socio-economic development. International commodity-related environmental agreements, like the Framework Convention on Climate Change and the Convention on Biological Diversity, should provide for the need of facilitating and financing the transfer of environmentally sound technologies on favourable terms. His Group supported the secretariat's work on the impact of internalization of external costs on trade and competitiveness.

12. Calling attention to the complexity of the issue, the representative of **China** stressed the need for international cooperation which would take into consideration the different economic development levels and needs of all countries. With many developing countries facing the arduous tasks of poverty elimination and economic development, they could not invest financial resources in new technology even when these were environmentally "friendlier". By the same token the use of the environmental issue as a pretext for setting up new types of trade barriers must be excluded. Assistance to developing countries in their economic development as well as in their environmental protection measures was the fundamental way of achieving sustainable development. The developed countries and the international organizations concerned should give full consideration to the interests of the developing countries and provide them with financial and technical assistance in their pursuit of economic development and environmental conservation.

13. On behalf of the **Nordic countries** (Denmark, Finland, Norway and Sweden), the representative of Norway emphasized the importance of global cooperation in this area, citing limitations on how much individual Governments could achieve by acting independently without risking market losses. The UNCTAD secretariat's suggestion to put in place "an efficient system of incentives at the international level to induce cooperative environmental protection" merited support although vigilance was needed to guard against any trade discrimination which might arise. International cooperation was also needed on dealing with transboundary external environmental costs, as the secretariat's report had noted. The Nordic countries being the end-recipients of acid rain caused by industrial emissions from other countries made this concern particularly acute for them. The correction of market failures was a question of utmost importance, as failure to allocate a price on pollution or environmental degradation led to welfare reduction and price distortion; likewise, policy failures distorted allocative efficiency. Correcting market and policy failures thus represented a "win-win" situation. He fully supported the secretariat report's conclusion that "open markets remain a key to the international transmission of internalization of external costs," adding that the private sector also played an extremely important role. In this context, he noted the efforts of the Business Council on Sustainable Development and its task force on internalising environmental costs. Notwithstanding the flexibility of the market-based approach, it needed to be complemented by regulatory measures. The premise that technological innovation was best achieved through the application of economic instruments for internalization of external costs was questionable, as

feasibility depended equally on the ways of implementing the regulatory measures or economic instruments, or combinations thereof. UNCTAD's initial work on guidelines for mutual recognition of national eco-labelling schemes had been very useful and the commodity sector was particularly relevant for UNCTAD's continued work on these questions. The Standing Committee on Commodities was already engaged in this work and further guidance from the Board might be useful. Attention should be focussed on production methods, including the choice of technology. In this regard, he alluded to the possibility of funding through the Common Fund for Commodities. The Nordic countries looked forward to the completion of the conceptual study on internalization of external costs in the commodity sector; preparation of a case study on policy/market failures and on a mix of policy measures for the internalization of external costs would be very useful. He then proposed that the secretariat investigate "cooperative approaches to providing incentives for switching to more environmental sound technologies," an area which also demanded practical testing of different measures. The Nordic countries agreed that: "global optimality demands global cooperation," especially in order to assist developing countries. UNCTAD had undertaken valuable analytical work on various types of market-based instruments that might facilitate a global approach to the internalization issue, and could therefore make an important contribution towards the trade and development debate.

14. The representative of **Egypt** said that discussion on internalization should be centred around three fundamentals: international cooperation, the intrinsic linkages between poverty and environmental problems in developing countries, and the balance of commitments between developed and developing countries. On the last point, she called the Board's attention to the essence and spirit of the Rio Declaration. Unilateral regulatory measures, as linked to trade, could lead to unpredictable, non-transparent and discriminatory trade practices. Noting that these measures were gaining ground in developed countries, she called for further work in this area to analyze the effects and consequences of such measures on sustainable development, particularly with respect to the developing countries. Economic instruments adopted on a unilateral basis could exacerbate the differentiation of treatment between imported and local products. Evoking the idea of an internationally agreed command and control approach, she believed that UNCTAD could explore multilaterally-based measures which would take into account the interrelationship between development, international trade and the environment. Another area of concern to developing countries was the relationship between demand elasticity and the polluter pays principle. If developing countries exports faced elastic demand while their demand for imports was inelastic, these countries would

bear the major costs of internalization. On the issue of valuation, damage had to be valued if it was to be paid for: the same degree of damage could legitimately have different costs depending on the country. The task was rendered more complicated by such factors as levels of production and output of pollutants, which might be a non-linear function or entail synergistic effects. The assessment of the impact of the internalization of external environmental costs on sustainable development would be complete only when trade effects had been included. There were also other factors which might be relevant, such as exporters' local environmental and socioeconomic conditions, development needs and priorities, and the possibility of compensatory schemes to alleviate the burden of meeting international trade restrictions and fulfilling environmental goals.

15. The representative of the **former Yugoslav Republic of Macedonia** said that the problem of internalization of external costs was particularly difficult for countries in transition and developing countries, where slow economic growth, high unemployment rates and declining standards of living dominated and where environmental concerns were consequently secondary issues. The application of economic and other instruments to environmental management in these countries, especially with regard to the internalization of external costs, was one more challenge. These countries had urgent developmental priorities which, in the absence of improvement in production technologies, would most likely exacerbate environmental degradation. The support of the international community to countries pursuing development policies designed to achieve acceptable growth rates through the promotion of efficient resource use would benefit both the environment and the economy. The difficult situation in countries in transition necessitated additional efforts in formulating international instruments for the internalization of external costs in world trade which would enhance the dissemination of sustainable development methods. This could include assistance in the transfer of improved technology, promotion of environmental awareness as well as enhanced market access. UNCTAD could lay the groundwork for such a programme.

16. Endorsing the statement of Indonesia on behalf of the Asian Group, the representative of **India** said that while it was important to keep in view the needs of future generations, account had to be taken of the basic requirements of the present generation. In this context, he fully agreed with the premise put forward in the secretariat's report which stipulated that sustainable development as a development concept sought "to do away with poverty, not just pollution." Regarding the relationship between demand elasticity and cost internalization, measures were needed to ensure that the export products of developing countries did not become

uncompetititve and that declines in demand did not ensue as a result. Internalization should not lead to price increases which rendered essential products unaffordable to the poor. If costs were minimized by shifting them to the poor, lower costs might correspond to an even greater loss of welfare. Factors such as increased flow of environmentally sound technologies to developing countries, improved market access, and general public awareness of environmental concerns contributed more to the achievement of sustainable development than economic instruments did. Agricultural protectionism in developed countries increased farming intensity to a level that was not environmentally and economically justifiable, and impeded market access of low-cost producers. Lowered income in developing countries could exacerbate environmental pressures, through worsening the levels of poverty and through compelling these countries to intensify agricultural practices. The issue of sustainable development should not be approached on a piecemeal basis, but had to be tackled as a major cooperative effort of the world community. UNCTAD should study the effect of internalization on selected key sectors important to developing countries, bearing in mind welfare and poverty-alleviation components. UNCTAD could also develop a technical cooperation programme in this area, jointly with donor and aid agencies along with collaboration from policy sciences' research and policy analysis agencies, universities and nongovernmental organizations involved in resource management.

17. The representative of **Canada** noted that the Board's continuing consideration of this subject meant that a great deal of attention was being focused on achieving sustainable development. This attention in itself was useful, he believed. He then turned to the paper prepared by the secretariat, commending the way in which it had explored the idea of getting the right mix of policy tools and had stressed the need to understand the policy context. It had also made the important point that narrowly focused action could result in simply shifting external environmental costs rather than internalizing them. While it had paid attention to the role of present market interventions such as subsidies, and had addressed the question of full cost pricing and international implementation of environmental policy, the role of regulation had possibly been dismissed too hastily. Environmental assessment of policies as an instrument of internalization could have been given more attention and a discussion of the practicality and/or feasibility of different instruments would have been a welcome addition. However, the text in Box 3 of the document, relating to the Canadian cod fisheries, gave a misleading picture of the serious situation affecting the cod fishery. First, there had been insufficient attention paid to the role of foreign fishing fleets, including vessels flying flags of convenience or without nationality, in the destruction of the valuable cod

fisheries on the Grand Banks of Newfoundland. This particular cause of the decline of the cod stock was a policy failure on the part of distant-water fishing nations, not on the part of Canada. The United Nations had convened, as part of the follow-up to UNCED, the Conference on High Seas Fisheries to address the issues of effective conservation and management régimes for straddling stocks and highly migratory species on the high seas, with a view to preventing over-fishing and to allow for sustainable development of fisheries. Needless to say, Canada was participating actively in this Conference. Furthermore, the text failed to acknowledge that the decline of the cod fisheries was caused by a complex mix of factors including environmental factors. Despite the fishing moratorium imposed by the Canadian Government, the stock was continuing to fall at an alarming rate. Practices such as discarding of small fish had more to do with market pressures as reflected in price differentials than any "inadvertent" policy but the Canadian Government had adopted strict regulations to minimize discarding. While commercial catches had nearly doubled in the decade between 1978 and 1988, the levels were far below those of the 1960s and early 1970s. Stocks had increased rapidly following the extension of fisheries jurisdiction. The reference to the 1992 allowable catch as having been set at an excessively high figure of 185,000 tons did not take into account the revision downwards to 120,000 tons early in that year or the two-year moratorium imposed on 2 July 1992 as soon as the results of the new scientific studies had confirmed the rapid decline of the stock. With regard to future work in UNCTAD, the proposal to examine cost internalization in commodity markets was a good one but the approach taken to the issue should be broadened to include how to ensure that resource prices reflected full costs and the role of internationally traded emission permits. Attention might also be given to examining ways of financing environmental action. In addition, information issues such as those presented in paragraphs 43 and 44 of the document might be explored, including a discussion of full-cost accounting and case studies of successes in resource pricing and their effects on sustainable development.

18. The representative of **Algeria** said that in view of the absence of experience on the use of internalization instruments among developing countries, UNCTAD should undertake further analysis, particularly on the impact of such economic instruments on developing countries and their principal exports. Existing and potential regulations as well as financial and administrative constraints should likewise be further investigated, especially from the point of view of developing countries. For instance, the polluters pay principle as currently applied in certain developed countries could be adapted for use in developing countries. Noting that the concept of internalization of environmental costs was relatively new and its

definition still evolving, she said that its further elaboration should be centred on the principle of common but differentiated responsibility. The issue of correct pricing of commodities, both renewable and non-renewable, was of critical importance. The creation of a special working group on trade and environment, with a work programme aimed at, inter alia, assisting developing countries attain sustainable development, would have her country's full support. Such work could also enrich, if not complement, that of the Standing Committee on Commodities and of the World Trade Organization.

19. The representative of **Australia** said that the secretariat's report had provided an excellent basis for the discussion of the internalization of external costs and that it formed a welcome contribution to the study of economic instruments. Her delegation had found the report's discussion of the international dimension of cost internalization particularly useful, especially since this was a new area on which data were still scarce. Two areas where work could be undertaken were: the potential shortcomings and side-effects of various instruments and the importance of educational extension services and greater community involvement. UNCTAD could usefully explore further the international dimension of cost internalization, including the detailed implications and practical application of international commodity-related environmental agreements.